



## State Fiscal Note for Bill Number: 2021-H-5215

**Date of State Budget Office Approval:** Thursday, May 13, 2021

**Date Requested:** Tuesday, April 20, 2021

**Date Due:** Friday, April 30, 2021

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2021	n/a	FY 2021	n/a
FY 2022	n/a	FY 2022	See below
FY 2023	n/a	FY 2023	See below

**Explanation by State  
Budget Office:**

This bill would amend Rhode Island General Laws (R.I. Gen Laws) Chapter 44-22 entitled "Estate and Transfer Taxes – Liability and Computation" by adding to R.I. Gen. Laws Section 44-22-1.1 titled "Tax on net estate of decedent" subsections 44-22-1.1(a)(5) and 44-22-1.1(a)(6). Subsection 44-22-1.1(a)(5) would impose the estate and transfer tax on the amount of the net taxable estate of a decedent that exceeds \$2,500,000 for decedents whose death occurs on or after January 1, 2023. The \$2,500,000 exemption amount would be indexed to inflation, as measured by the U.S. Consumer Price Index for All Urban Consumers (CPI-U) as of September 30 of the prior calendar year, each subsequent year. Subsection 44-22-1.1(a)(6) would impose the estate and transfer tax on the amount of the net taxable estate of a decedent that exceeds \$5,000,000 for decedents whose death occurs on or after January 1, 2025. The \$5,000,000 exemption amount would be indexed to inflation, as measured by CPI-U as of September 30 of the prior calendar year, for each subsequent year.

Under current law, decedents whose death occurs on or after January 1, 2015 are entitled to a credit against estate taxes owed in the amount of \$64,400 with this credit amount indexed to inflation as measured by the CPI-U as of September 30 of the prior calendar year. The \$64,400 credit amount is equivalent to an exemption amount of \$1,500,000 for a net taxable estate, above which the estate and transfer tax is applied. The following are the estate and transfer tax credit amounts and equivalent exemption amounts for decedents whose date of death is:

On or after January 1, 2015 but before January 1, 2016: \$64,400 or \$1,500,000;  
On or after January 1, 2016 but before January 1, 2017: \$64,400 or \$1,500,000;  
On or after January 1, 2017 but before January 1, 2018: \$65,370 or \$1,515,156;  
On or after January 1, 2018 but before January 1, 2019: \$66,810 or \$1,537,656;  
On or after January 1, 2019 but before January 1, 2020: \$68,350 or \$1,561,719;  
On or after January 1, 2020 but before January 1, 2021: \$69,515 or \$1,579,922; and  
On or after January 1, 2021 but before January 1, 2022: \$70,490 or \$1,595,156.

**Comments on  
Sources of Funds:**

Estate and transfer taxes are general revenues.

**Summary of Facts  
and Assumptions:**

The effective date of the bill is upon passage, but the provisions of the bill apply to the net taxable estates of decedents who die on or after January 1, 2023 or on or after January 1, 2025.

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Estate and transfer tax revenues, like all revenues, consist of cash receipts received in a fiscal year plus the net accrual. The net accrual is equal to the difference between the current fiscal year receivable and the current fiscal year payable minus the difference between the prior fiscal year receivable and the prior fiscal year payable. The net accrual for any given fiscal year can be positive, negative, or zero (a highly unlikely circumstance). The Department of Administration, Office of Accounts and Controls (OAC) estimates the receivable for the estate and transfer tax to 75% of following fiscal year's cash receipts. Thus, for example, the FY 2021 receivable for the estate and transfer tax is equal to  $0.75 \times \text{FY 2022 estate and transfer tax cash receipts}$ . ORA employed this methodology in producing the revenue estimates for this fiscal note assuming that the estate and transfer tax payable is the same for all fiscal years.

The Department of Revenue, Division of Taxation (Taxation) provided the Department of Revenue, Office of Revenue Analysis (ORA) with detailed data on the estates of those decedents that were subject to the estate and transfer tax in FY 2020, a total of 131 estates. ORA estimated that if the bill were in effect in FY 2020, estate and transfer tax revenues would have been 39.2977% less with a \$2,500,000 exemption amount and 83.2195% less with a \$5,000,000 exemption amount.

The FY 2020 estate tax data showed that the year of death and the percentage of total decedents by year were distributed as follows: 2012 - 2015, 1.5152%; 2016, 1.5152%; 2017, 0%; 2018, 30.3030%; 2019, 65.9091%; and 2020, 0%. ORA assumed that these same percentages would apply in FY 2021 – FY 2023. ORA mapped the year of death to FY 2021 as follows: 2012 – 2015 = 2016; 2016 = 2017; 2017 = 2018; 2018 = 2019; 2019 = 2020; and 2020 = 2021. The mapping for FY 2022 was 2012 – 2015 = 2017; 2016 = 2018; 2017 = 2019; 2018 = 2020; 2019 = 2021; and 2020 = 2022. Finally, the mapping for FY 2023 was 2012 – 2015 = 2018; 2016 = 2019; 2017 = 2020; 2018 = 2021; 2019 = 2022; and 2020 = 2023. This pattern repeated itself for FY 2024 – FY 2026.

ORA then looked at the distribution of revenue collections from the FY 2020 estate and transfer tax data. The distribution of the revenue was as follows: 2012 – 2015, 0.1382%; 2016, 1.2682%; 2017, 0%; 2018, 33.6781%; 2019, 64.9155%; and 2020, 0%. These results were consistent with the percentages noted above for the year of death for decedents, indicating that no anomalies exist in the data (i.e., large estates are not responsible for the revenue amounts received). The mapping of the estate and transfer tax revenues was the same as that used for the year of death of decedents (i.e., for FY 2021, 2012 - 2015 = 2016, 2016 = 2017, 2017 = 2018, etc. and similarly for FY 2022 and FY 2023).

Given the effective dates of the changes in the estate and transfer tax exemption amounts included in the bill, there is no impact on FY 2022 estate and transfer tax cash receipts as the bill's increase in the estate and transfer tax exemption amount to \$2,500,000 (equivalent to an estate and transfer tax credit amount of \$138,800) occurs on January 1, 2023. Further, the FY 2022 estate and transfer tax net accrual is unaffected as FY 2023 estate and transfer tax cash receipts are estimated to be unimpacted by passage of the bill. (In the FY 2020 estate and transfer tax database, no decedents with a date of death after December 31, 2019 and on or before June 30,



2020, paid any estate and transfer taxes. ORA assumed the same pattern would apply to FY 2023 with respect to decedents who died after December 31, 2022 and on or before June 30, 2023.)

For FY 2023, as noted above, passage of the bill would not affect FY 2023 estate and transfer tax cash receipts, however, the FY 2023 net accrual would be impacted as FY 2024 estate and transfer tax cash receipts would be reduced. Based on the FY 2020 estate and transfer tax database, 64.9155% of FY 2024 estate and transfer tax cash receipts would be subject to the higher estate and transfer tax exemption amount of \$2,500,000 since this percentage of the FY 2024 cash receipts come from decedents with dates of death on or after January 1, 2023 and prior to January 1, 2024. ORA estimated, based on the November 2020 Revenue Estimating Conference's (REC) adopted estate and transfer tax cash receipts estimates for FY 2021 and FY 2022, that FY 2024 estate and transfer tax cash receipts would decrease by \$13,265,362 from \$52,000,000 to \$38,734,638. (It is important to note that estate and transfer tax cash payments received in FY 2024 from decedents with dates of death prior to January 1, 2023 are unaffected.) Thus, the net accrual for FY 2023 estate and transfer tax receipts would decrease from \$975,000 to \$(8,974,022). So, the revenue impact of the bill on FY 2023 revenues is a decrease of \$9,974,022.

Although this fiscal note does not cover fiscal years beyond 2023, it should be clear that the increase in the estate and transfer tax exemption amount to \$2,500,000 for decedents with dates of death on or after January 1, 2023 but before January 1, 2025 will have a larger impact in FY 2024 as more estates become subject to the higher exemption amount. The increase in the estate and transfer tax exemption amount to \$5,000,000 for decedents with dates of death occurring on or after January 1, 2025 will substantially increase the loss of revenue in FY 2025 and beyond. Using the same methodology that was used to estimate the revenue loss for FY 2023, ORA estimated revenue losses of \$18,721,551 for FY 2024 and \$32,609,275 for FY 2025, when the estate and transfer tax exemption amount is \$5,000,000 (equivalent to an estate and transfer tax credit amount of \$391,600) for 64.9155% of FY 2026 estate and transfer tax cash receipts and \$2,500,000 for 33.6781% of FY 2026 estate and transfer tax cash receipts.

The Governor's FY 2022 Recommended Budget projects a closing general revenue surplus of \$265,441,847 in FY 2021 and \$4,425,716 in FY 2022. Passage of this bill would have no impact on the FY 2021 closing surplus or the FY 2022 ending balance. It will, however, increase the FY 2023 projected budget deficit of \$374.4 million.

*Summary of Fiscal  
Impact:*

FY 2021: Not applicable given the effective dates in the bill for increasing the estate and transfer tax exemption amount of January 1, 2023 and January 1, 2025.

FY 2022: Not applicable given the effective dates in the bill for increasing the estate and transfer tax exemption amount of January 1, 2023 and January 1, 2025.

FY 2023: A general revenue loss of \$9,974,022 is forecast.

FY 2024: A general revenue loss of \$18,721,551 is forecast.



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FY 2025: A general revenue loss of \$32,609,275 is forecast.

*Budget Office Signature:*

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*Fiscal Advisor Signature:*

*Prepared by:*

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